

CORPORATE PARTICIPANTS

Sandra Daycock
Director, Investor Relations

John Floren
President & Chief Executive Officer

Ian Cameron
Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Steve Hansen
Raymond James

Daniel Jester
Citi

Hassan Ahmed
Alembic Global

Joel Jackson
BMO Capital Markets

Jeffrey Schnell
Jefferies

Robert Kwan
RBC Capital Markets

Charles Neivert
Cowen

John Roberts
UBS

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Methanex Corporation Q4 2016 Earnings Call.

I would now like to turn the conference over to Ms. Sandra Daycock, Director of Investor Relations. Please go ahead, Ms. Daycock.

Sandra Daycock, Director, Investor Relations

Thank you. Good morning, ladies and gentlemen. Welcome to our fourth quarter 2016 results conference call. Our 2016 fourth quarter news release, Management's Discussion and Analysis, financial statements, and presentation slides summarizing the Q4 results can be accessed from the Reports tab of the Investor Relations page on our website at www.methanex.com.

I would like to remind our listeners that our comments and answers to your questions today may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties that may cause the stated outcome to differ materially from the actual outcome. Certain material factors or assumptions were applied in drawing the conclusions or making the forecasts or projections which are included in the forward-looking information. Please refer to our fourth quarter MD&A and to our 2015 Annual Report for more information.

I would also like to caution our listeners that any projections provided today regarding Methanex's future financial performance are effective as of today's date. It is our policy not to comment on or update this guidance between quarters.

For clarification, any references to revenue, EBITDA, cash flow, or income made in today's remarks reflect our 63.1 percent economic interest in the Atlas facility and our 50 percent economic interest in the Egypt facility. In addition, we report our adjusted EBITDA and adjusted net income to exclude the mark-to-market impact on share-based compensation and the impact of certain items associated with specific identified events. We report these non-GAAP measures in this way to make them a better measure of underlying operating performance and we encourage analysts covering the company to report their estimates in this manner.

I would like to now turn over the call to Methanex's President and CEO, Mr. John Floren, for his comments and a question-and-answer period.

John Floren, President & Chief Executive Officer

Thank you, Sandra.

We delivered improved financial performance in the fourth quarter and ended 2016 on a very positive note. Methanol prices continued their strong upward trend, which began late in the third quarter, resulting in an 18

percent increase in our average realized price to \$278 per tonne in Q4 compared to \$236 per tonne in Q3. The higher pricing contributed to higher fourth quarter adjusted EBITDA of \$139 million and adjusted net income of \$41 million or \$0.46 per share. This compares to adjusted EBITDA of \$74 million and an adjusted net loss of \$1 million or \$0.01 per share in Q3. We also achieved record production in Q4 of 1.9 million tonnes and record sales volumes of 2.5 million tonnes. As well, we experienced a 100,000 metric ton produced inventory build in the quarter. Based on higher sales levels and a longer supply chain, we expect to carry higher inventory on a sustained basis.

The strong upturn in methanol prices has continued into 2017. Our posted price for Europe for the first quarter of 2017 is €370, up €120 versus the fourth quarter 2016. Our January contract price in North America was \$416 per tonne, up \$50 a tonne from December and \$123 per tonne since October. As well, our January Asia contract price is \$430 per tonne, up \$80 per tonne from December and \$145 per tonne since October. We also recently announced our contract prices for February for North America and Asia, both which are unchanged from their higher January levels. We believe the higher methanol pricing is attributable to strong methanol demand.

Demand continues to grow we estimate that Q4 2016 demand was 11 percent higher than Q4 2015. The strong growth can be primarily attributed to robust methanol to olefins, or MTO, demand. Two new MTO facilities capable of consuming over 3 million tonnes of methanol built up inventory through the fourth quarter of 2016 and started up at the end of December. We expect another MTO facility with the capacity to consume up to 1.8 million tonnes of methanol to start up in 2017. We understand that the MTO capacity utilization average roughly 85 percent to 90 percent in the quarter. There have been a couple of MTO plants that have recently reduced operating rates as a result of technical issues with their downstream operations. Besides these two plants, we are anticipating operating rates for MTO to be about 90 percent during Q1.

Chemical demand was also strong as we estimate the demand grew at a rate of 4 percent year over year in Q4. Thermal coal prices peaked in October and have since moved back somewhat to their September 2016 levels. Nonetheless, we estimate that the cost curve has steepened somewhat due to higher Chinese natural gas based production cost. We estimate the current cost curve to be in the range of \$280 to \$300 per metric ton. CFR spot prices in China are in the \$340 per tonne range, which is well above the cost curve, supported by strong methanol demand and low coastal Chinese

inventory. Our 2016 production was 7 million equity tonnes, up 35 percent versus 2015 and representing another company record. At 95 percent, our overall plant reliability experienced a big improvement over the 90 percent achieved in 2015, but remains lower than our target of 97 percent. We continue to make reliability a key area of focus for the company.

In North America, the Geismar plants continue to operate at high rates. The Medicine Hat facility was idled in Q4 and operated at reduced rates for the remainder of the quarter. Repairs to the plant are planned for Q1 and we expect the plant to return to full rates during the quarter.

Our share of the Egypt production increased to 96,000 tonnes in the fourth quarter. Since mid-November the plant has been receiving sufficient gas to operate at high rates. Although we continue to expect some gas restrictions in Egypt, gas deliveries have improved significantly in 2016 compared to 2015 and we're optimistic that the strong efforts by the Egyptian government entities are leading to improved gas deliveries and an improved outlook for gas availability in the medium term.

The Chile plant produced 154,000 tonnes of methanol during the fourth quarter, which is the highest level of quarterly production since Q1 2011. During the fourth quarter we signed a tolling arrangement with YPF SA in Argentina through April 2018 whereby all natural gas received is converted into methanol and then redelivered to Argentina. We have not yet received natural gas under this contract but we expect the first volume to be delivered in the first quarter of 2017. We remain optimistic that our underutilized 1.7 million tonne Chile facilities represent a very low capital cost growth opportunity for Methanex due to significant progress in developing natural gas reserves in the area.

In Trinidad, our share production was 455,000 tonnes in the fourth quarter of 2016 compared with 420,000 tonnes in Q3. Although we continue to experience gas curtailments in Trinidad, we had improved gas availability at both plants during the quarter.

During the quarter, Waterfront Shipping took delivery of the last of the seven 50,000 dead weight tonne vessels capable of running on methanol. These new vessels have gained considerable attention in the shipping industry. This past December one of our new vessels, the Lindanger, was recognized by the Maritime Reporter & Engineering News as one of the great ships of 2016 for being the world's first methanol-fuelled tanker. The publication is the world's largest audited circulation magazine serving the global maritime industry. Over the

coming months we will be focused on demonstrating the engine technology for these state-of-the-art vessels. We are optimistic that the data we gather will encourage others in the shipping industry to choose methanol as a marine fuel that will meet planned and anticipated tighter emission control regulations in the future.

We ended the quarter with \$224 million in cash. Methanex's share of the cash, including our proportionate share of Egypt and Atlas cash, was relatively unchanged at \$211 million. We generated cash from operating activities before changes in non-working capital of \$125 million during the quarter, which comfortably exceeded our cash requirements related to debt service, the dividend, and maintenance capital. The total increase in non-cash working capital related to operating activities was \$52 million in the quarter. This was primarily attributable to the impact of a higher average methanol price on accounts receivables and inventory. Although pricing in Q1 looks to be stronger than Q4, we do not anticipate building much cash during the quarter as a result of continued increased working capital requirements. Our medium-term cash requirements excluding any changes in working capital are expected to be limited. Maintenance capital for 2017 is estimated at approximately \$80 million and the next bond maturity is 2019. Other than some modest capital that we may decide to invest in Chile and for front-end engineering and design for our advantage projects in North America, we do not anticipate any significant growth capital expenditures in the near term.

We remain committed to a meaningful and growing dividend that is sustainable at the bottom of cycle methanol prices. Our priority for any excess cash will be to return it to shareholders via share buybacks.

Our outlook for the first quarter of 2017 is positive. As evidenced by our posted contract prices thus far in the quarter, we expect higher average methanol prices in Q1 2017 versus Q4 2016. Further, we anticipate that production in Q1 2017 will remain at similar levels to Q4 2016. As a result, we expect EBITDA to be higher in Q1 2017 compared to Q4 2016.

I would now be happy to respond to any questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you are using a speakerphone, please lift your handset before making your selection. Please limit your inquiry to one question plus a follow-up question.

After that, if you have further questions, please rejoin the queue. Please press star one at this time if you have a question. The first question is from Steve Hansen from Raymond James. Please go ahead.

Steve Hansen, Raymond James

Good morning, guys. John, maybe just quickly on the discount rate, abnormally low for the quarter but probably a reflection of the fly up in pricing you saw on the spot side. Can you just maybe give us some clarity about how we should think about that for the balance of the year?

John Floren, President & Chief Executive Officer

I think you're right to point out it was abnormally lower than our guidance, and we've said in the past when prices fall rapidly the discount expands and when prices increase rapidly the discount contracts and that is exactly what happened in the quarter. Assuming a normal price environment with not a lot of ups and downs, yeah, you would expect the discount to be higher going forward.

Steve Hansen, Raymond James

Appreciate that. And just one follow-up on the Argentine gas: You gave a term stretching out into 2018 but can you give us some sort of sense around the volume that we should expect in terms of how much excess capacity that will take up at Chile and I guess any sort of idea around the margin profile on a tolling basis?

John Floren, President & Chief Executive Officer

We have flexibility to take that gas at different rates, so it's for a volume, and based on our outlook, you know, the gas in Chile today, just the Chilean gas and this tolling, we think we can get the plant close to 100 percent rates based on gas availability. We haven't run the plant at 100 percent rates for a while. We don't anticipate any issues but until we get there I'd rather be a little cautious. As far as the economics, the economics are quite favourable for a tolling operation. Argentina needs more methanol for their biodiesel business in 2017, so we think it is a win/win arrangement and I think it will be a positive contributor to EBITDA as well as give us a bit more efficiency on the plant. So I think it will be a positive thing in 2017 once the gas starts flowing.

Steve Hansen, Raymond James

Thanks for the colour.

Operator

Thank you. The next question is from Daniel Jester from Citi. Please go ahead.

Daniel Jester, Citi

Good morning, John. You spoke about sort of how strong MTO demand was in the quarter and also how sturdy sort of traditional chemical demand was but I think if you back into it sort of non-MTO-related energy demand was down. So can you comment on what you're seeing in those markets?

John Floren, President & Chief Executive Officer

Yeah, we're not seeing that. We actually saw DME increase in the quarter. Gasoline blending, MTP, were solid, so we disagree with what your numbers would say, Dan.

Daniel Jester, Citi

Okay. I'll follow up off-line on that. And then in terms of Trinidad, it seems like the government recently has made some comments about re-evaluating some of their energy policy. Can you provide any colour or conversations you're having with the government and kind of how your outlook for gas in Trinidad may be evolving from here? Thanks.

John Floren, President & Chief Executive Officer

Yeah, our conversations with the government is to get 100 percent of our gas allocation under our contracts, and that has been consistent for the last five years, so there's nothing new to report. We're working with the government to try and get the contracted volumes that we've contracted. I think there's been a lot of reports about them doing some things in Venezuela, etc., but I think that's not for the short term and probably more for the medium term. So I would continue to guide that we'll probably expect 15 percent restrictions going forward until we see something different.

Daniel Jester, Citi

Okay. Thank you.

Operator

Thank you. The next question is from Hassan Ahmed from Alembic Global. Please go ahead.

Hassan Ahmed, Alembic Global

Good morning, John. John, obviously some nice sort of pricing movements through the course of the quarter, particularly in Asia, and I just wanted your views on what you guys are seeing in terms of trade flows into and out of China.

John Floren, President & Chief Executive Officer

China imports have been quite strong. I think for the year they were close to 9 million tonnes, which is obviously a record, and continues to be quite strong, and I think it's been limited by availability from producers that have had unplanned outages. So it might even have been higher if the production had have been there. So we're seeing much less basin-to-basin change. We saw obviously the first half of last year but right now both the European and the North American spot markets are extremely tight and prices are increasing, so we think most of the Atlantic basin material for the foreseeable future will stay in the Atlantic. So we would expect imports in China to continue to be strong but limited by productive capability.

Hassan Ahmed, Alembic Global

Fair enough. Now changing gears a bit, you know, a fair bit of volatility in the natural gas markets in North America. What are your thoughts with regards to sort of, you know, some sort of contract with regards to Geismar 2? So, A, that, and B, you know, any guidance with regards to what sort of procurements you may be doing, how many months out or the like, for both Medicine Hat and Geismar 2?

John Floren, President & Chief Executive Officer

For Geismar we're very happy with our current contractual arrangement. So 100 percent of plant one is contracted on a ten-year basis. I think about eight years

to go on that one. And we've hedged 40 percent of our requirements for the second plant. So we can run both facilities at minimum rates if we do see a blowout in gas, which is not in our expectation, at least in the short term, and we'll buy the balance on the spot market. So that's, we're set up well there, we're happy with our position. We're always talking to gas suppliers. If we can do a deal that would that we couldn't refuse for the balance of the gas requirements or longer than the ten years we've got covered, we certainly would consider doing that, but really nothing to report along those lines. In Canada it's a better situation. We do believe that the Western Canadian gas is truly stranded. We've seen the Henry Hub/AECO spread expand to well over \$1 now. So the forward curve in Alberta at AECO looks quite attractive through 2022 at just north of \$2, so I think you'll see us continue to layer in hedges and physical gas through that period, because maybe prices will get a little lower but I think \$2 in that market for gas gives us an unbeatable cost position. So you should expect us to continue to layer in gas at those kinds of levels.

Hassan Ahmed, Alembic Global

Very helpful. Thanks so much, John.

Operator

Thank you. Once again, please press star one if you have a question.

The next question is from Joel Jackson from BMO Capital Markets. Please go ahead.

Joel Jackson, BMO Capital Markets

Hi. Thanks. Good morning, John. Historically, if you were going to do a new buyback, you've announced them in April, you've announced any dividend increases in April concurrent with Q1 results. You obviously didn't do anything on this quarter. Is the reason why, because you seem to have a lot of excess free cash flow this year coming to you if things play out decently, is this solely because of the working capital investment you need to make in Q1 or maybe give us a little bit of colour of the choice to do a buyback now or wait. Thanks.

John Floren, President & Chief Executive Officer

I guess, Joel, I'm a little old fashioned. I like to earn the money before I spend it and have it in the bank before I

spend it. So we don't have excess cash in the bank today. Certainly the pricing environment, if it holds for any length of time, we'll have excess cash, and we've been very clear what we're going to do with it, we're going to invest in the business, we're going to have a meaningful, sustainable growing dividend, and return to balance through share buybacks. I think the share price today is a very attractive price to be looking to buy back shares. So you're right to point out on the dividend. We look at it usually once a year and that is around AGM time and that is coming up here in the third week, fourth week in April. We didn't grow it last year for obvious reasons. It's pretty meaningful right now. It's almost, well, it was close to 3 percent yield, it's probably a little bit less this morning. And we proved last year through the bottom end of the cycle of the methanol pricing that it was sustainable despite many experts predicting we would cut it. So I think with our increased productive capability we have room to look at growing the dividend and we'll make that decision with our board around the AGM time. As far as a buyback, I mean we'll institute an NCIB when we have excess cash to distribute, because when we institute an NCIB our intent is to fulfill it each and every day. So until I'm in a position to give free cash back to shareholders in the way of buybacks we won't execute an NCIB.

Joel Jackson, BMO Capital Markets

Okay. That was helpful. So my second question would be, I mean it does seem like on the MTO blocks that there's neutral or break-even or even negative earnings, but if you start looking at some of the downstream margins, some of the downstream products, the margins might still be positive. Can you maybe give a little bit of colour on that outlook? And have we reached maybe as high as methanol prices can go in China before some of those downstream derivatives might be challenged? Or what do you think?

John Floren, President & Chief Executive Officer

Well, it's just new space for us, so we watch it every day and every week and it changes on a weekly basis as well. You're right to point out that the derivative prices of olefins have increased as well in the past 90 days. All I can tell you is what we see and, you know, we have our own models internally for so-called affordability, which are different than what you read in some of the trade journals, and we would say that most of the operations, with the exception of MTP, methanol to propylene, are still cash positive. Obviously their margins have shrunk with the higher methanol prices but it's really a factor of what the overall operation gets in a cash basis for all of

the products that they're selling each and every day. Now if they choose to reduce rates or shut down, they still have obligations, I would assume, to sell a lot of these derivatives. So we would expect, going forward, if operations are really strained on cash, that they probably will moderate rates. That's not our anticipation for Q1 except for the two plants that have had some downstream technical issues. But we're learning here as the rest of the industry is learning and so far what we're seeing is that these plants are running at many different levels of affordability.

Joel Jackson, BMO Capital Markets

Thank you.

Operator

Thank you. The next question is from Laurence Alexander from Jefferies. Please go ahead.

Jeffrey Schnell, Jefferies

Hi. This is Jeff on for Laurence. You mentioned production is expected to be roughly flat in Q1 sequentially; anything expected out of the normal seasonality as you look at your asset base in the remainder of 2017? Any downtime or restrictions that you might see?

John Floren, President & Chief Executive Officer

Yeah, we do not comment on downtime that we're planning. That is something we do not comment on. But our outlook this year is quite robust for production. We see things better in Chile, better in Egypt, Medicine Hat problems will be behind us after Q1 and the other facilities are operating well. So we would expect a very solid production performance in 2017.

Jeff, Jefferies

Thanks. And, John, quickly, can you talk about fuel blending in China, maybe the competitiveness today and versus ethanol given recent duties imposed by China, maybe what you're seeing in other emerging markets against MTB, etc.?

John Floren, President & Chief Executive Officer

Yeah, we see MTB continue to go quite strongly in China and outside China. So we expect that market to continue to expand. As far as fuel blending, recently there's been another couple of provinces adding on high blends, so we don't see any shrinkage and we would expect, you know, this is still a trial for China and we would expect us to continue to see it grow in the near future. As far as affordability, it's still very affordable at both high and low level blends versus gasoline in China.

Jeffrey Schnell, Jefferies

Great. Thank you.

Operator

Thank you. The next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Good morning. John, coming back to dividends and buybacks, you noted that your dividend yield is meaningful and that it was sustainable. I'm just kind of wondering though, historically you've talked about dividend first and then growth and buybacks second. Does that change though as you look forward here because a lot of that dividend growth has been around past the expansion and so do think about where you were in 2016 and a bias maybe shifting to buybacks instead given where you were on cash flow?

John Floren, President & Chief Executive Officer

I think we can do both. I think we'll look at the dividend around the AGM time. Most investors that are invested in the company for dividends, which is a lot, would like to see it grow each and every year, and that is our philosophy, we'd like to grow it. The yield is fairly significant. So we'll look at where we're around that period and make a decision on if we grow it and at what levels. Certainly if pricing stays where it is today we'll have lots of room to look at the dividend and buy back lots of shares. So I think both. And it's not a preference. I think our preference obviously is once we institute a dividend and grow it, we want it to be sustainable. So we have the ability today with our wider production base to sustain a higher dividend than we did 12 months ago.

Robert Kwan, RBC Capital Markets

Okay, understood. And then maybe just shifting to growth, you had talked about potentially as part of capital around some feed work. As you look at Medicine Hat I'm just wondering if you have any updated thoughts on some of the work you were talking about, egress, getting that product out, but as well just with the Alberta government's royalty credit decision. Did you get any feedback as to why the government only allocated to the PDH polypropylene facilities and away from you and what that path might be going forward given the government still left the door open to additional credits?

John Floren, President & Chief Executive Officer

So our cheapest growth is in Chile. So we're running today at about 75 percent rates for one plant. We're spending some millions of dollars in the first half of this year doing some engineering work to see if we can restart Chile 4 on a standalone basis. We'll make that decision mid-year. We think it's around \$50 million in 12 months to do that. And that decision will be made based on two factors: what does the gas outlook in Chile look like by that time, which is looking very positive, as well as what's the methanol market look like? Does the market need more methanol? And those would be the two things that we think about. If we do execute it, for \$50 million, that will be the cheapest way to add another 800,000 tonnes of production. So we'll look at that.

Then we have these two advantage projects that our teams have been working on, Geismar 3 and Medicine Hat, the second plant. Yes, we were very disappointed we didn't get royalty credits. We understand that the two projects that were awarded probably were prepared to make investments right away where we were not. We are not. So we're still doing our feasibility work and we're a bit concerned about executing in the market until we see some of the oil sands projects complete. So we have some more work to do. We're in contact with the government all the time. I think it was a very successful program by the government, I think they were surprised by the amount of response, I think it was very creative, and if it's working, why wouldn't they look to do similar things in the future? Certainly that wasn't going to drive our project and we weren't going to make the decision to spend \$1 billion plus based on some royalty credits. It would have been helpful but it's certainly not killed the project and we'll continue to work on it and continue to see if we can make the economics and get comfortable with the project execution.

Robert Kwan, RBC Capital Markets

Great. Thanks, John.

Operator

Thank you. The next question is from Robert Neivert from Cowen. Please go ahead.

Charles Neivert, Cowen

Oh, Robert now, huh? Okay.

Operator

Very sorry, Charles.

Charles Neivert, Cowen

Quick question: Is there still, should we still expect, even though there's more gas in Chile should we still expect some winter curtailment there? I mean not obviously to the extent that it used to be but would we still expect because they haven't really filled it completely out yet?

John Floren, President & Chief Executive Officer

Well, we have curtailment today, Charles, and we're in the summer. So we're only running at 75 percent. So in my mind we're 25 percent curtailed. I think the advantage of getting this Argentinean tolling, gives us flexibility to take that gas at different times. So I would still anticipate, everything I know today, that we'll be running at lower rates in the wintertime than we do in the summertime, but I think we'll be running, which—

Charles Neivert, Cowen

Okay. Yeah, no, that was really the—

John Floren, President & Chief Executive Officer

And we would have run last year if we didn't have the technical issue or had to do that planned maintenance. So we fully expect to be running the Chile plant through their winter this year.

Charles Neivert, Cowen

Got it. And the second question is on number four in Chile, does that, it still, as I understand it, it requires number one to be running all the time as well, because of the hydrogen combination. Is that basically what has to happen?

John Floren, President & Chief Executive Officer

Well, that's how it was designed, Charles, but what we're doing as part of this feasibility that I mentioned earlier is to configure that plant to be a standalone operation. It will no longer be connected into Chile 1 and Chile 1 won't have to run for it to run. So we're doing that work. We think we might lose about 10 percent productive capability and 10 percent efficiency, but it is early days.

Charles Neivert, Cowen

Okay, that's good. Thank you very much.

Operator

Thank you. The next question is from John Roberts from UBS. Please go ahead.

John Roberts, UBS

Thank you. Nice quarter. If the US adopted year one expensing of capital spending and/or a destination tax system that would advantage exports would that be enough incentive for you to build another unit in the US?

John Floren, President & Chief Executive Officer

We're looking to build another unit in the US under the current circumstances, so anything that would make it more positive would be more encouraging. We're unsure what's going to happen. There are lots of rumors. We have our plant in Canada that mainly sells its product in Canada and we have our two plants in the US that mainly sell its product in the US. So we think we have tremendous flexibility to adjust based on whatever rules or regulations or laws might be passed. So we think we're in a very good position to adopt and adapt our supply chain depending on whatever might come down. Certainly a lower tax rate, corporate tax rate over time is very positive for our existing operation and would be

positive as we're considering a third plant there, so we'll see. We'll watch this space and we're in a great position to adapt accordingly depending on what is actually passed and comes into law.

John Roberts, UBS

Thank you.

Operator

Thank you. Once again, please press star one if you have a question.

The next question is from Daniel Jester from Citi. Please go ahead.

Daniel Jester, Citi

Just wanted to follow up on Egypt. I think in the past you've said that you might have to put a little bit more capital spending into it because the plant had been going on and off due to gas availability. Was this maintenance that you did in the fourth quarter, did that fix that issue? Or is that something that you're going to have to address in the future still? Thanks.

John Floren, President & Chief Executive Officer

The plant is running at very high rates and extremely well. I'll remind you the plant was commissioned in 2011 and hasn't had a turnaround since then. So just in the normal maintenance, forget all of the ups and downs we had in Egypt, you would expect plants to have turnarounds every three to four years. So I'd call that regular maintenance. As far as how the plant is performing, we're very, very happy after the repairs we made in November about the performance of the plant.

Daniel Jester, Citi

Okay. Thank you.

Operator

Thank you. The next question is from Steve Hansen from Raymond James. Please go ahead.

Steve Hansen, Raymond James

Hi, guys. Just one quick follow-up on housekeeping items. Depreciation has been one of the variables that's had some variance in our model of late and I understand there's been some nuances around the new ships but could you just maybe give us a sense for, now that the ships are delivered, sort of a run rate depreciation figure we should try to get our heads wrapped around here?

John Floren, President & Chief Executive Officer

Yes, sure. I'll ask Ian Cameron, our CFO, to answer that one, Steve.

Ian Cameron, Chief Financial Officer

Hi, Steve. You'll notice that the depreciation was a little bit lower than last quarter, \$55 million versus \$60 million last quarter. Primarily that related to reduction in production for the sales of produced product in the quarter and a little bit of, ah, little issues that we saw in Q3 around unabsorbed depreciation. But on a run rate basis going forward you should plan around the \$60 million level per quarter.

Steve Hansen, Raymond James

Okay, great. That's helpful. And actually just one last one if I could: John, could you just give us a little bit more of your views around the cost curve in China? I know you cited a higher number than prior quarters and I think we all understand that coal is coming down, but maybe just some commentary around the gas dynamics there domestically in China and how that's pushed the curve higher at that upper end.

John Floren, President & Chief Executive Officer

Gas is not as available in the wintertime for making chemicals, so that has an impact, and the pricing is adjusted on a regular basis as well based on international oil prices, so as we've seen higher oil prices you would expect to see higher gas prices in China. So that's what's really setting the high end of the cost curve. But the middle part, where coal is, is a big factor and has also raised as a result of the large coal prices. It's come back a little bit in the last month or so but the overall cost curve is much steeper than it was 12 months ago.

Steve Hansen, Raymond James

Okay. Very helpful, thanks.

Operator

Thank you. Once again, please press star one at this time if you have a question.

There are no further questions registered at this time. I'd like to turn the meeting back over to Mr. Floren.

John Floren, President & Chief Executive Officer

Okay, thank you. With the strong increase in methanol price in the second half of 2016 the methanol industry environment has improved. The company has come out of the recent bottom of the methanol price cycle in good shape. I'm very pleased with the record production results we achieved in Q4 and in 2016 and I'm encouraged by the improvements we've seen in the gas availability in Egypt, Trinidad, and Chile. In the current methanol price environment our assets are capable of generating significant cash flows. Our priorities for capital allocation are to meet our financial commitments, invest to grow the company, and return excess cash to shareholders. Thank you for the interest in our company.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time and thank you for your participation.